

Message Text

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TAGS: EFIN, CA

SUBJECT: FINANCE MINISTER COMMENTS ON FALLING EXCHANGE RATE
DECLINE

REF: OTTAWA 4730

1. SUMMARY: IN ANSWER TO OPPOSITION MP QUESTIONS IN COMMONS ON NOVEMBER 30 REGARDING DROP IN FOREIGN EXCHANGE VALUE OF CANADIAN DOLLAR, FINMIN MACDONALD SAID GOC "WOULD ACCEPT TO LET THE CANADIAN CURRENCY GO TO WHATEVER LEVEL INTERNATIONAL TRADING WOULD TAKE IT." WHILE REFUSING TO GIVE FIGURES ON BANK OF CANADA INTERVENTION IN MARKET, MACDONALD ACKNOWLEDGED INTERVENTION BY BANK "IN ORDER TO MAINTAIN AN ORDERLY MARKET." END SUMMARY.

2. FOLLOWING EXCHANGE TOOK PLACE IN HOUSE OF COMMONS ON NOVEMBER 30:

QUOTE. MR. SINCLAIR STEVENS: MR. SPEAKER, MY QUESTION IS FOR THE MINISTER OF FINANCE. IN VIEW OF THE UNPLANNED DROP OF OUR DOLLAR WHICH FELL BELOW 96 CENTS THIS MORNING IN RELATION TO THE UNITED STATES DOLLAR, A FIVE CENT DROP IN A WEEK, WOULD THE MINISTER INDICATE IF NEWS REPORTS IN NEW YORK ARE CORRECT WHEN THEY STATE THAT THE BANK OF CANADA HAS USED SUBSTANTIAL AMOUNTS OF OUR UNITED STATES DOLLAR RESERVES TO SUPPORT THE
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CANADIAN DOLLAR WITHIN THE LAST THREE OR FOUR DAYS, TO PREVENT

THE CANADIAN DOLLAR FROM FALLING TO STILL LOWER LEVELS? IF SO, WOULD THE MINISTER INDICATE TO WHAT EXTENT RESERVES HAVE BEEN SO USED?

HON. DONALD S. MACDONALD: MR. SPEAKER, IT IS THE POLICY OF THE BANK OF CANADA TO INTERVENE FROM TIME TO TIME WITH PRICE MOVEMENTS OF THE DOLLAR, IN ORDER TO MAINTAIN AN ORDERLY MARKET. THE STATE OF THE FOREIGN EXCHANGE FUND IS REPORTED ON AFTER THE END OF EACH MONTH AND THE CURRENT STATE WILL BE REPORTED ON AT THE END OF THIS MONTH. IT HAS ALSO NOT BEEN THE POLICY TO DISCLOSE ON A DAY TO DAY BASIS THE PARTICULAR AMOUNT OF INTERVENTION. FOR THAT REASON I WOULD PREFER NOT TO COMMENT TO THE HOUSE AT THIS POINT, ALTHOUGH THIS INFORMATION WILL BE AVAILABLE WITHIN THE MONTH.

MR. SINCLAIR STEVENS: A SUPPLEMENTARY QUESTION, MR. SPEAKER. SINCE THE MINISTER INDICATED THAT THE BANK OF CANADA HAS BEEN INTERVENING IN THE DOLLAR MARKET, WOULD HE INDICATE WHAT CURRENT INSTRUCTIONS HE HAS GIVEN THE BANK OF CANADA WHICH ACTS AS THE AGENT WITH RESPECT TO THE FOREIGN EXCHANGE ACCOUNT, WITH PARTICULAR EMPHASIS ON THE CURRENT ACTIVITY IN THE CANADIAN DOLLAR.

HON. DONALD S. MACDONALD: MR. SPEAKER, THE INSTRUCTIONS OF LONG STANDING, AS I JUST INDICATED, ARE THAT THE BANK SHOULD ACT FOR THE PURPOSE OF MAINTAINING AN ORDERLY MARKET, A SMOOTH CHANGE IN THE MARKET, BUT THAT OF COURSE WE WOULD ACCEPT TO LET THE CANADIAN CURRENCY GO TO WHATEVER LEVEL INTERNATIONAL TRADING WOULD TAKE IT. IN OTHER WORDS, WE WOULD NOT SEEK TO PEG IT AT ANY PARTICULAR LEVEL BUT WOULD RELY ON THE FLOAT.

MR. STEVENS: MR. SPEAKER, I HAVE A SUPPLEMENTARY QUESTION FOR THE MINISTER OF FINANCE. AS I BELIEVE IT WILL BE THURSDAY WHEN THE MONTH'S FIGURE WILL BE PUBLISHED REVEALING TO WHAT EXTENT OUR RESERVES HAVE BEEN USED, WOULD THE MINISTER INDICATE WHETHER HE IS PREPARED NOW TO APPEAR BEFORE THE STANDING COMMITTEE ON FINANCE, TRADE AND ECONOMIC AFFAIRS WITH RESPECT TO BILL C-5, A BILL PROPOSING AMENDMENTS TO THE CURRENCY AND EXCHANGE ACT AND, IF SO, WHEN MAY WE EXPECT HIM TO APPEAR BEFORE THE COMMITTEE TO MAKE A STATEMENT CONCERNING THIS VERY IMPORTANT QUESTION AND TO ANSWER QUESTIONS, OR WOULD HE PREFER TO MAKE A STATEMENT ON MOTIONS IN THE HOUSE AT THE EARLIEST POSSIBLE OPPORTUNITY?

MR. MACDONALD: MR. SPEAKER, I THINK IT HAS BEEN THE LONG UNCLASSIFIED

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STANDING POSITION OF MINISTER OF FINANCE NOT TO MAKE STATEMENTS ON THE CHANGE IN VALUE OF THE CANADIAN DOLLAR ON THE EXCHANGE MARKETS, AND I THINK IT WOULD BE UNWISE UNDER THE CIRCUMSTANCES TO DEPART FROM THAT POLICY.

HON. ROBERT L. STANFIELD: MR. SPEAKER, MY QUESTION IS FOR THE MINISTER OF FINANCE. IS THE MINISTER NOT CONCERNED THAT THE REDUCED CONFIDENCE IN THE CANADIAN DOLLAR WOULD REFLECT ITSELF ALSO IN REDUCED CONFIDENCE AMONG INVESTORS IN CANADA, BOTH INTER-

NATIONAL AND CANADIAN INVESTORS, WITH DEEP ECONOMIC CONSEQUENCES FOR CANADA RESULTING FROM A REDUCTION IN THE RATE OF INVESTMENT INCLUDING AN INCREASE IN UNEMPLOYMENT?

HON. MACDONALD: SEVERAL POSSIBLE CONCLUSIONS CAN BE DRAWN FROM THE DROP IN VALUE OF THE CANADIAN DOLLAR. IT HAS BEEN ANTICIPATED, BOTH AT HOME AND ABROAD, FOR SOME TIME THAT THERE WOULD BE A READJUSTMENT DOWNWARD IN THE CANADIAN DOLLAR WHEN THE HEAVY CALENDAR OF BORROWINGS, PARTICULARLY BY PROVINCIAL INSTITUTIONS, WAS FINISHED THIS YEAR. TO THE EXTENT THAT THERE HAS BEEN THE EXPECTED READJUSTMENT DOWNWARD, I THINK ONE MIGHT EXPECT THAT FOREIGN INVESTORS, SEEING AN EXPECTED STABILITY IN THE DOLLAR RATE, MIGHT NOT BE DETERRED FROM INVESTING IN CANADA. ON THE OTHER HAND, OF COURSE, I THINK WE MUST BE CONCERNED ABOUT THE POSSIBLE IMPACT OF POLITICAL EVENTS IN CANADA, AND INDEED ABOUT THE RATE OF INFLATION ON THE CONTINUED CONFIDENCE THAT FOREIGN INVESTORS WILL HAVE IN THIS COUNTRY. I WILL BE CONSCIOUS OF THAT IN ANY POLICY I PUT FORWARD.

HON. ROBERT L. STANFIELD: IN VIEW OF THE SHARP DECLINE OF THE DOLLAR--AND I HOPE THE MINISTER IS RIGHT IN SUGGESTING, AS HE SEEMED TO BE SUGGESTING, THAT THIS WILL BE BROUGHT ABOUT QUITE QUICKLY, ALTHOUGH THERE IS NO REASON THAT WE CAN SEE HERE TO BELIEVE THAT AT THE MOMENT--DOES THE MINISTER INTEND TO TAKE ANY NEW INITIATIVES, IN THE LIGHT OF THIS DISPLAY OF LACK OF CONFIDENCE IN THE CANADIAN ECONOMY, TO RESTORE CONFIDENCE IN THE ECONOMY AND INDEED IN THE INTEGRITY OF CANADA--AND BY "INITIATIVES" I ASSURE YOU I AM NOT IMPLYING THE SUGGESTION THAT ED SCHREYER AND I SHOULD BE INVITED TO JOIN THE GOVERNMENT--OR WHETHER HE INTENDS TO STAND PAT, AS HE INDICATED HE WAS GOING TO DO WHEN HE LAST MADE A STATEMENT IN THE HOUSE A WEEK OR SO AGO?

HON. MACDONALD: IT IS NOT EVIDENT TO ME THAT ANY INITIATIVES THAT MIGHT BE TAKEN--FOR EXAMPLE, BY STIMULATING THE DOMESTIC ECONOMY AND STIMULATING THE DOMESTIC DEMAND--WOULD NECESSARILY PRODUCE A MORE FAVOURABLE RECEPTION OF THE CANADIAN DOLLAR OR

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CANADIAN INVESTMENTS ABROAD. IT SEEMS TO ME THAT PROBABLY THE MOST EFFECTIVE POLICY TO BE PURSUED IS THAT TO WHICH THE GOVERNMENT HAS GIVEN PRIORITY, THAT IS TO REDUCE THE RATE OF INFLATION. THAT CONTINUES TO BE THE POLICY. UNQUOTE.
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